THE LIST

VENTURE CAPITAL FIRMS

Ranked by capital under management

▶ NEXT WEEK
The Largest Biotech/Biomed Firms in L.A. County

THE PACESETTER: GRP Partners is the largest venture capital firm headquartered in Los Angeles County, with $1.3 billion in capital under management. Last year, the firm appointed Mark Suster as co-managing partner alongside Yves Sisteron. The firm has begun investing a new fund, GRP IV LP, which could close at $175 million. The firm makes investments in three areas: financial services, digital media and retail innovation. Last year, it invested $48 million in local companies. Some of its portfolio companies reported major transactions during the past year. Portfolio company Makers Studios raised $25 million from Time Warner in December. Qualys had a $105 million IPO in September. FIS purchased mFoundry in a transaction valued at $165 million last month.

Rank	Firm • name • address • website	($ in millions) Capital	 Project Profile • minimum size • preferred size • investments[1]	Preferred Industries (partial list)	Companies Recently Funded	Preferred Financing Stage(s)	Top Executive • name • title • phone
1	**GRP Partners** 2121 Avenue of the Stars, Suite 1630 Los Angeles 90067 grppartners.com	$1,300	$0.5 $2 - $5 134	digital media, e-commerce, online video, financial services, mobile, retail innovation	NuOrder, DailyLook, Epoxy, Gravity, Yield Metrics	startups to early stage	Yves Sisteron/Mark Suster Managing Partners (310) 785-5100
2	**Steamboat Ventures** 3601 W. Olive Ave., Suite 650 Burbank 91505 steamboatvc.com	655	2.0 10 39	information technology, media, software technology	WND	early- to mid-stage	John R. Ball Chairman, Managing Director (818) 566-7400
3	**Clearstone Venture Partners** 1351 Fourth St., Fourth Floor Santa Monica 90401 clearstone.com	650	1.0 1 - 5 83	technology	WND	early	Bill Elkus Managing Director, Founder (310) 460-7900
4	**Palomar Ventures** 233 Wilshire Blvd., Suite 900 Santa Monica 90401 palomarventures.com	525	0.3 2 - 5 75	enterprise software, wireless, semiconductors, network telecom/datacom, consumer services	WND	early	James Gauer Managing Partner (310) 260-6050
5	**Rustic Canyon Partners** 100 Wilshire Blvd., Suite 200 Santa Monica 90401 rusticcanyon.com	500	0.1 1 - 10 101	Internet, digital media, software, clean technology	Meteor, Dollar Shave Club, Appstack	seed, series A, series B	Nate Redmond/Tom Unterman Managing Partner/ Founding Partner (310) 998-8000
6	**Greycroft Partners** 100 Wilshire Blvd., Suite 1830 Santa Monica 90401 greycroft.com	394	0.0 1 - 3 89	digital media, e-commerce, ad tech, enterprise software	PeopleLinx, NewsCred	series A	Dana Settle Partner (310) 566-5960
7	**Anthem Venture Partners** 225 Arizona Ave., Suite 200 Santa Monica 90401 anthemvp.com	250	1.0 1 - 4 30	Internet, media, software, semiconductors	WND	seed, early	William Woodward/Samit Varma/Brian Mesic Managing Partners (310) 899-6225
8	**California Technology Ventures LLC** 670 N. Rosemead, Suite 201 Pasadena 91107 ctventures.com	200	0.5 2 - 5 38	IT and life science	SkySQL	all	Alex Suh/William Hanna Founding Managing Director/ Managing Director (626) 351-3700
9	**Shelter Capital Partners** 10880 Wilshire Blvd., Suite 1850 Los Angeles 90024 sheltercap.com	180	1.0 WND WND	media content and technology convergence, enterprise software, application services	WND	early	Arthur Bilger Managing Member (310) 234-2300
10	**Vicente Capital Partners** 11726 San Vicente Blvd., Suite 300 Los Angeles 90049 vicentecapital.com	165	5.0 5 - 20 7	business services, consumer services, specialty manufacturing	Intellectual Technology Inc., MedBridge Healthcare	late-stage venture, growth/ expansion capital	Jay Ferguson Managing Partner (310) 826-2255

[1] Number of companies invested in since inception.
WND - Would Not Disclose
Note: Information on this list was provided by representatives of the firms themselves. In order to qualify, venture capital firms must be headquartered in Los Angeles County. Firms are ranked by the amount of capital under management companywide and the number of projects completed since inception, respectively.

Researched by David Nusbaum

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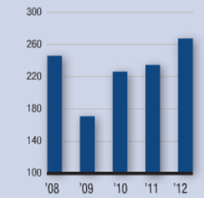
11	**Pacific Venture Group** 16830 Ventura Blvd., Suite 244 Encino 91436 pacven.com	$110	$1.0 4 WND	health care services, medical devices, biomedical, health care IT	WND	early	Layton R. Crouch/Eve Kurtin/ Ralph Sabin Managing Directors (818) 990-4141
12	**Baroda Ventures** 245 S. Beverly Drive Beverly Hills 90212 barodaventures.com	100	0.1 0.1 - 1 35	IT, Internet, e-commerce	Fab.com, SurfAir, GraphEffect, Steelhouse, Dogvacay, Science	seed, early stage	David Bohnett/Peter Lee Founding Managing Partner/ Partner (310) 276-0005
13	**DFJ Frontier** 15260 Ventura Blvd., 20th Floor Sherman Oaks 91403 dfjfrontier.com	80	0.1 0.5 45	software, information services, biotech, nanotechnology, alternative energy	Shift, Janrain, Boom Studios	seed, early	David Cremin/Scott Lenet Managing Directors (424) 354-2244
14	**Palisades Ventures** 11726 San Vicente Blvd., Suite 450 Los Angeles 90049 palisadesventures.com	75	0.0 3 - 5 WND	wireless, communications, broadband, enterprise software	WND	growth	Paul D'Addario Sr. Managing Director (310) 571-6214
15	**Karlin Ventures** 11755 Wilshire Blvd., Suite 1400 Santa Monica 90025 karlinvc.com	50	0.1 .25 - 1.5 9	financial services, education technology, e-commerce, digital media, health care IT	Bitium, ChowNow, YieldMetrics, Tonx, Invested.in, Gyft, Saygent, Walla.by	seed, series A	TX Zhuo Managing Partner (310) 806-9700 •
16	**Arcturus Capital** 199 S. Los Robles Ave., Suite 535 Pasadena 91101 arcturusvc.com	32	0.2 .5 - 1 16	wireless, IT, software, Internet, biotechnology, optics	WND	early	Donald Hall/Stevan Birnbaum Managing Directors (626) 578-5700
17	**Siemer Ventures** 1333 Second St., Suite 600 Santa Monica 90401 siemervc.com	30	0.1 0.5 - 0.75 84	Internet, mobile, software, digital media, e-commerce	WND	early stage	Eric Manlunas/David Siemer Managing Partners (310) 861-2100
18	**CrossCut Ventures** 2301 Rosecrans, Fifth Floor El Segundo 90245 crosscutventures.com	25	0.3 0.75 26	Internet, mobile, e-commerce and gaming	WND	seed, series A	Rick Smith Managing Director (310) 683-0940
19	**Canyon Creek Capital** 1134 11th St., Suite 101 Santa Monica 90403 canyoncreekcapital.com	15	0.1 0.2 8	Internet, mobile, e-commerce, SaaS, media, technology	Shopsavvy, Club W, Amplify, Tonx	seed, series A	Buck Jordan Partner (818) 522-7480
20	**6Pacific Group** 10940 Wilshire Blvd., Suite 1600 Los Angeles 90024 6pacificgroup.com	15	0.5 2 7	consumer health, consumer products	WND	growth stage	John Barrymore Chairman (310) 746-5420

[1] Number of companies invested in since inception.
WND - Would Not Disclose Note: Information on this list was provided by representatives of the firms themselves. In order to qualify, venture capital firms must be headquartered in Los Angeles County. Firms are ranked by the amount of capital under management companywide and the number of projects completed since inception, respectively. To the best of our knowledge, this information is accurate as of press time. While every effort is made to ensure the accuracy and thoroughness of the list, omissions and typographical errors sometimes occur. Please send corrections or additions on company letterhead to the Research Department, Los Angeles Business Journal, 5700 Wilshire Blvd., Suite 170, Los Angeles 90036.

Researched by David Nusbaum

NEW FUND: Karlin Ventures was founded in August. It's an affiliate of Karlin Asset Management, a private investment firm managing over $1.4 billion.

Ups and Downs
Venture capital deals in Los Angeles and Orange counties.



High Again
The amount invested in Los Angeles and Orange County venture deals. (in millions)

Sowing Startups

Financing sector has blossomed alongside L.A.'s tech scene

By **TOM DOTAN**
Staff Reporter

ADAM **Lilling** doesn't keep track, but if he ventured to guess, he'd put it at 10. That's the number of inquiries he gets each day from local tech entrepreneurs looking to his firm, **Plus Capital**, to find investors.

Plus Capital is barely two months old and has made only three investments to date, yet the flurry of companies knocking at the fund's door with a pitch and a PowerPoint presentation belies its youth.

Indeed, as L.A.'s so-called Silicon Beach continues to produce startups, the venture capital community, once a vestige of the tech bubble, has found new popularity. In 2012, $1.3 billion was invested in local businesses, an 18 percent jump from the previous year according to data from **PriceWaterhouseCoopers** and the **National Venture Capital Association**.

In recent years, financiers to L.A.'s tech community have sprung up, beefed up or moved in. It's brought people like Lilling, formerly an entrepreneur and now a mentor at the Santa Monica tech accelerator **LaunchPad LA**, to the other side of the table. Some are choosing to reinvest their own money, such as **David Waxman** and **Gil Elbaz** of Santa Monica's new **TenOneTen Ventures**. Waxman founded a pair of startups, while Elbaz's first company, **Applied Semantics**, was sold to Google in 2003 for $103 million.

That's becoming a common story in Los Angeles and a vital part of the market, said **Mark Suster** of Century City's **GRP Partners.**

"There's a lot of second- and third-generation entrepreneurs; all the people who made money 10 or 20 years ago are putting in recycled capital," said Suster, who's a two-time entrepreneur as well and boarded the venture capital bandwagon in 2007. "When the hat gets passed around I say, 'Yeah, I'd like to see another great L.A. company.' "

This new group of tech bankrollers has its own community that's distinct and far more casual than the more buttoned-down professionals that might meet for a $150 lunch at Craft in Century City or some similar spot in Beverly Hills or downtown Los Angeles. Lilling's favorite meeting spot is Le Pain Quotidien, an organic bakery known for communal tables made of reclaimed wood. It's not far from LaunchPad, where his fund has its office.

In fact, at midday the coffee shops and lunch spots of Silicon Beach can be full of tech investors. Some meet at the Refinery on Santa Monica Boulevard, others at Peet's Coffee on Main Street.

Despite the low-stress appearance, tech is a notoriously competitive industry, with companies going under quickly and investors angling for a crack at

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ALSO SEE:

'The level of collaboration you'll see is amazing. People who are raising their own funds helped me to find (contributors) for my fund. That's almost unheard of in investing.'

ADAM LILLING , Plus Capital

RINGO H.W. CHIU/LABJ

Continued from page 27

the most promising startups. But for the new financiers of the L.A tech boom, there remains a youthful spirit of the collective.

"The level of collaboration you'll see is amazing," Lilling said. "People who are raising their own funds helped me to find (contributors) for my fund. That's almost unheard of in investing."

As for the investments themselves, the tech financiers are looking for a return that's about 10 times the initial investment. It's a level that gives a satisfying return to people bankrolling a fund as well as covering the losses from the bets that went wrong.

The funding lifecycle of a startup generally begins with a small round from friends and family, maybe for $25,000. That initial spark gives a newborn company enough life to raise a seed round, led by angel investors and smaller venture capital funds. The size of seed funds vary by a company's needs, but average in the low seven figures.

Once a business has hit its benchmarks and is gaining a quantifiable market value, larger firms join the subsequent A and B rounds. Investments can easily soar past $10 million at this point, and a company's equity begins to be split up among the venture capital firms. Beyond that, investment rounds get larger and the equity pie continues to be sliced, until, hopefully, a startup "exits" – either it gets acquired or debuts in an initial public offering – and shareholders can cash out.

Common threads

Speaking with dozens of angel as well as early and midstage venture capital investors reveals a few common insights.

First, the cost of launching a company has gone down over the last decade. More than anything, say venture capitalists, that's the reason the current tech investment climate feels more reasoned than it did during the late-'90s tech bubble. Advances in technology, as well as increased connectivity to the Internet through mobile devices, means companies can build products and acquire customers more efficiently, thus requiring smaller upfront investments.

For that reason, the local startup scene is dominated largely by funds of $50 million or smaller that are willing to make six- or low-seven-figure bets on early stage companies.

Trying to figure out exactly which companies are worth those investments brings up another piece of shared wisdom: It all comes down to the entrepreneurs.

"We're trying to pick up on this innate ability to make something out of nothing and succeeding where they have no business doing so," said **David Travers** of Santa Monica firm **Rustic Canyon Partners.** "There are lots of other aspects, but that alchemy in a person and in the team is key."

Those "other aspects" are the quantifiable ones – the size of the market a company is going after, the success (or failures) of competitors in the field and the cost of building up a customer base.

Repeat success

But the people managing venture capital funds continue to base their primary investment decision on the skill a startup's founder has in leading a project and bringing other people on board with his or her vision.

Dana Settle of Santa Monica's **Greycroft Ventures** looks to a founder's previous success as a determining factor.

"The No. 1 pattern is successful repeat entrepreneurs," Settle said. "We're looking at teams that are working together again, even if it's in a slightly different area."

The relationship between a venture capital investor and a startup is more than just fund and recipient. Beyond the equity stake, firms that make a sizable investment in a young company take on advisory roles, with many holding positions on the board.

"As major investors it takes a lot of our time; we have to sneak out of meetings to take calls as board members," said GRP's Suster. "We don't get involved unless we have a meaningful enough stake."

As Los Angeles begins to emerge as a viable scene worthy of investor interest, it also has to deal with a dearth of larger, late-stage funding.

Unlike Silicon Valley, which is replete with funds that might figure into the billions, Los Angeles is still a small-ball market. No local fund is larger than $250 million. Occasionally, a company such as **JustFab** or **SnapChat** can command venture interest from outside the area, but most initial funding comes from local capital.

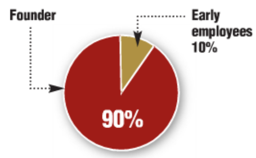
There is hope among venture capitalists that a local business could hit it big, with venture capital riding on its coattails. It's happened before; Chicago's **Groupon Inc.** virtually invented the area's tech boom once the company became a multibillion-dollar, if beleaguered, public company in 2011.

That belief is what turns people such as Lilling into the new mentors, and funders, of the area's tech foundlings.

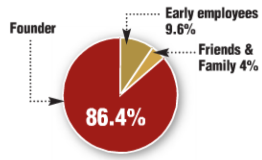
"There is a give-before-you-get mentality in L.A.," Lilling said, "You need to build the pie before you split it up. We're in pie-building mode. It's one of the best parts of the job right now."

Sequencing Venture Capital

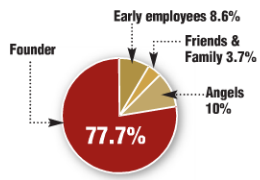
Here's a hypothetical example of how an L.A. tech startup might get financed in the early stages.



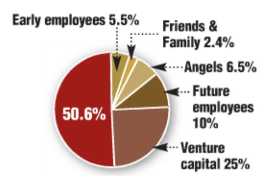
Founder and employees: A company begins with the founders taking a 90 percent stake in the company and the early employees getting 10 percent.



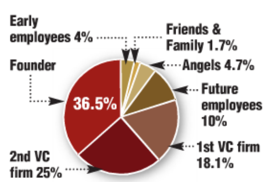
Friends and Family Round: The friends and family invest a small amount and take a 4 percent stake in the company.



Seed/Angel Round: An angel makes an investment in the company and takes a 10 percent stake.



Series A Round: A venture capitalist takes a 25 percent stake in the company. But now that the startup has money it needs to expand and hire new employees. It creates a 10 percent pool from a valuation prior to the venture capital investment.



Series B Round: Another venture capital firm takes a 25 percent stake. The new employee option pool is kept at 10 percent.

Stage 1, Pre-Seed: Friends & Family

IT'S no surprise to **Mark Epstein** that his son, **Corey**, has developed a knack for building businesses. The elder Epstein started a Denver technology company in the 1980s and later took it public.

So when Corey Epstein approached his father last summer with an idea to start an e-commerce company to sell men's clothing on the cheap, Epstein didn't hesitate to pledge money to help the venture.

"When Corey told me he was interested in doing this, I totally supported him going out and making that change," said Epstein, 59. "As long as he had done the research, I probably would have backed anything he wanted to do."

Epstein participated in what is commonly referred to as a friends and family investment. These deals are more nebulous than other startup investments because they often happen before a company has even established an office, hired its first employees, or started selling a product or service.

'As long as he had done the research, I probably would have backed anything he wanted to do.'

MARK EPSTEIN, on son Corey's firm

The size of the deal can vary greatly depending on a venture's startup costs.

Corey Epstein said he wanted to own as much of the business at the beginning as possible. So he put $150,000 of his own money into **20Jeans** and then reached out to friends and family for an additional $25,000.

Raising money from loved ones can help a founder make it through a startup's early stages before tapping more established investors. But it also comes with its own set of problems: namely, the risk of mixing business with family.

Both Epsteins took steps to ensure that a sticky financial situation would not ruin their relationship. Corey Epstein, for instance, made sure he was financing the majority of his company in the early days. And Mark Epstein, now retired, made only a small investment.

"My future doesn't depend on his success," said the senior Epstein. "I'm glad I'm in a position where I can help him out and where it won't negatively impact me if something goes wrong."

– *Natalie Jarvey*

'You don't know when something great is going to happen. I know how much I have in my personal bank account and I have to watch that. That's probably the biggest indicator.'

THOMAS McINERNEY

RINGO H.W. CHIU/LABJ

Stage 2, Angels: Early Round Integral to Growth

THE surge in startup activity in Los Angeles has created a steady stream of potential deals for the local community of angel investors.

Though angel investments often occur under the radar, the wealthy people behind the deals are integral to the funding ecosystem. Angels help startups – many of them without proven business models – fill the gap between raising money from friends and family and reaching out to institutional investors that will take significant ownership cuts.

Dozens of individuals – both career angels and active tech executives – invest in a startup's seed and Series A rounds.

These investments can range from $25,000 to $250,000, depending on the angel, and taken together lead to a seed round typically south of $3 million. Some angels like to make a few large investments for a big piece of the equity pie, while others prefer to participate in many smaller deals and take only a 1 percent or 2 percent stake in the company.

Because angels invest their own money in deals, their investing patterns are less rigid than venture capital and private-equity firms.

Jarl Mohn, a longtime television executive-turned-angel investor, started investing by writing only a few million-dollar checks each year. But he soon settled into a habit of writing smaller checks.

"It's more fun," said Mohn, the former chief executive of **E! Entertainment**. "I get to see more opportunities and get in earlier."

For angels, the decision to invest in a company is largely personal. Though standard criteria include an experienced founding team and a product that stands out from the pack, most angels said they base their decisions on intuition.

For Mohn, it typically takes three phone calls before he's ready to write a check. Meanwhile, **Thomas McInerney**, an active L.A. angel, said he'll often decide to invest in a company while meeting with a founder over a meal. **Robert Jadon**, also an angel in Los Angeles, said he vets startups by talking to his network of tech entrepreneurs and investors.

"As an angel, I don't get to see any of the company's traction because I'm investing too early," Jadon said. "It's really a lot more about feel than metrics."

THOMAS McINERNEY

TITLE: Angel investor
COMPANY: Self-employed
YEARS AS AN INVESTOR: 4
LOCAL INVESTMENTS: Lettuce, an iPad app for small businesses; Zefr, a YouTube monetization platform; Burstly, a mobile advertising tool.

▶ What's your standard investment size?
My typical investment is $25,000 to $100,000 and my average is $50,000.

▶ What rounds will you participate in?
I'm always in seed and I sometimes do series A. I'll certainly do my pro rata, which means that in subsequent rounds I'll invest to keep my ownership the same and prevent it from being diluted.

▶ What is your time line for expecting a return?
The irony is that the best companies take the longest, like **Burstly** and **Zefr**. They are taking a long time now, but they have big ambitions. They aren't just a quick talent acquisition.

▶ What is your benchmark for how many deals you make a year?
If I were smart, I'd have more of a sense. But then again, you don't know when something great is going to happen. I know how much I have in my personal bank account and I have to watch that. That's probably the biggest indicator.

▶ Describe a time where you made a mistake or regretted an investment.
The second deal I saw was **AirBNB**, which I didn't end up doing because I was just so new at investing. I kick myself every day for that. But it gave me the impetus to be more aggressive as an angel.

Stage 3, Small VC: Most Active in L.A.

IN the last year, at least four venture capital firms dedicated to funding at the seed and early A rounds have sprung up in Los Angeles. They have joined a group that has become the most populous and frequent investors in the local tech scene.

New to this cadre of companies – which invest between $100,000 and $1.5 million in each startup – are **Karlin Ventures**, **Tenoneten Ventures**, **Canyon Creek** and **Plus Capital**. Already established in this funding stage are **Baroda Ventures**, **Siemer Ventures**, **Anthem Ventures**, **Double M**, **DFJ Frontier**, **CrossCut** and others.

In a sense, the sheer number of local companies that participate in these smaller funding rounds reflects the stage in which L.A. tech finds itself. Plenty of startups have come together (perhaps through an accelerator), stabilized their revenue models and are looking for the first infusion of significant money to prove their business model.

"The early stage funding is probably the strongest I've seen it in 20 years," said **Paul Bricault**, a longtime venture capital investor in Los Angeles. "Hopefully that means more companies will have the capacity to bring in late A or B rounds and eventually exit."

At this level, companies that pitch themselves to the venture capital community have enterprise values hovering around $30 million.

In most cases, V.C. firms have the option of taking the role of the round's lead investor or following as part of a financial syndicate. Taking a lead position requires a firm to be the largest investor as well as taking on the responsibility for vetting a business's bona fides.

The choice of whether to lead or follow is often intrinsic to a firm's investment strategy. While leading a round gives an investor a larger equity stake in the startup, they risk greater losses should the business go under.

Santa Monica's Siemer Ventures, which has

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L.A. Draws Outside Cash

AS startup activity in Los Angeles heats up, venture capital firms and angel investors from outside the region have begun to take notice.

Some firms have taken to investing heavily in Silicon Beach companies. Subscription e-commerce site **ShoeDazzle**, for example, boasts Menlo Park investors **Lightspeed Venture Partners** and **Andreessen Horowitz**. Downtown L.A.'s **Nasty Gal**, meanwhile, has raised $49 million from **Index Ventures**' San Francisco branch.

Other VC firms have established beachheads in Los Angeles. Chicago's **New World Ventures**, for example, opened an L.A. branch a little more than a year ago.

New World Partner **Matt McCall**, who oversees the firm's L.A. operations, said the firm had been investing in Los Angeles when, about two years ago, it began to notice a pickup in the number of companies opening in town and decided to establish a permanent presence.

"I've been coming out to Los Angeles for the last 10 to 12 years now and have seen the comings and goings of the ecosystem," he said. "But I started to notice that things were changing. We're right in the midst of a revolution occurring in new media and e-commerce."

Joining New World in Los Angeles are some angel investment funds. **Chris Sacca**, for example, moved to town for personal reasons but has since announced plans for the **Lowercase Stampede** fund dedicated to L.A. investments.

Another notable Silicon Valley angel to move into town is **David Lee**, managing partner of **SV Angel**. Though he relocated to be closer to family and will continue working in San Francisco, it wouldn't come as a surprise if his L.A. investments increased. Lee told tech blog PandoDaily that his portfolio includes some strong L.A. companies and that he hoped to add more to the list.

– Natalie Jarvey

Handling 'Series A Crunch'

THE "Series A crunch," despite its ominous name, is not much more than an observation.

The term refers to the steep fall-off for investments in startups between the seed round and follow-on A or B rounds. There aren't many large-scale studies to confirm the phenomenon, but one inquiry by a Silicon Valley legal firm looking at funding data found that in 2011 just 27 percent of startups that received seed funding managed to secure A rounds the next year. That's a 45 percent decrease from the year-earlier period.

What's causing it?

One theory is that the current investment pool is flooded by early stage investors willing to make small bets on startups. This gives many more nascent companies a chance to take a shot at building a business than there are investors in later rounds.

Another belief, and not necessarily a contradictory one, is that starting a business now doesn't require as much upfront investment. Fewer companies are seeking Series A rounds because they don't need them. Yet.

Either way, the investment drop-off weighs heavily on entrepreneurs who know that the easy money up front won't flow freely for long.

– Tom Dotan

SPECIAL REPORT TECH FINANCE

Continued from page 29

been among the most active investors locally and has chipped in to startups such as **Adly** and **StyleHaul**, prefers a quantitative approach. Among the 24 investments the company made in 2012, few were above $1 million and in none did it take the lead.

A smaller investment does run the risk of having the equity diluted as a company raises bigger money down the road, but as Siemer Managing Partner **Eric Manlunas** looks at it, "I'd rather have a smaller piece in a bigger pie, than a big piece in a small pie."

– Tom Dotan

'There are four elements I look at: How big is the market; how does it fit into it; what is the quality of the team; and what are the financial risks involved.'

ERIC MANLUNAS

RINGO H.W. CHIU/LABJ

ERIC MANLUNAS

COMPANY: Siemer Ventures
YEARS AT COMPANY: Began investing in 2003. Been at Siemer Venture since firm's inception in early 2011.
SIZE OF FUND: $30 million
COMPANIES INVESTED IN: Invested.In, Social Annex, Club W.

▶ What types of companies do you invest in?
We're in three verticals: Internet software and mobile services, and within those we're big into ad tech; e-commerce; and digital media.

▶ How do you valuate a company?
There are four elements I look at: How big is the market; how does it fit into it; what is the quality of the team; and what are the financial risks involved. Those are the things we evaluate, but it's more of an art than science. It's a function of all those elements and negotiations with the founders.

▶ What's your time line for expecting a return?
Anywhere from three to seven years. It's been averaging around that time frame. Our first exit, **CloudTrigger** (a San Diego cloud software maker), was 14 months. But most are obviously within that three- to seven-year mark. At the rate we're going, we expect exits to happen on a yearly basis in the next few years.

▶ Are there any concerns you have about the local funding scene?
What we don't have enough of is the bigger firms who can do follow-on beyond series A. But there is plenty of money from up north and ultimately the good companies that are proving metrics will get money and the mediocre ones struggling to prove their concept will struggle.

Stage 4, Midsized VC: Local Leads for A and B Rounds Not Easy to Find

FIRMS in Los Angeles willing to write out seven- or eight-figure checks for tech companies are becoming a rare breed.

Only three local venture capitalists actively participate in late A or B rounds here: **GRP Partners** in Century City, and Santa Monica's **Greycroft Ventures** and **Rustic Canyon Partners**. As recently as the mid-2000s, that list was considerably larger.

A startup looking for an A or B round has already acquired customers, is probably producing revenue and needs more capital to begin competing with some of the entrenched competitors.

Ironically, as the local scene continues to pop out companies looking to raise money, the number of venture capital funds that can lead an A or B round has shrunk.

Firms such as **Palomar Ventures**, **Steamboat Ventures** and **Clearstone Venture Partners**, once stalwarts of the midstage investment scene, have either spent down their funds or are only looking outside the area to invest.

During the heady days before the first tech bubble, venture capital firms were forming nationwide. The bubble's burst, however, led to a silent vow by many investors to be more cautious. And they were already wary of Los Angeles.

"A lot of the institutional money still doesn't believe in L.A.," said **Mark Suster**, a partner at GRP. "That's starting to change, but they don't believe in L.A. because returns have not been historically great."

In a startup economy, where less money is floating around to help bring companies to the next level, many promising businesses aren't afforded the chance to scale and succeed. For most businesses, it is a make-or-break stage.

Venture capitalists are routinely looking at startups whose values are nearing $100 million range, perhaps even higher. As such, firms that lead a round in this stage invest up to $10 million.

The gap between the many funds that contribute in seed rounds and the few that come into the picture later on is responsible, in part, for an investment falloff known as the "Series A crunch." (See previous page.)

It's unclear whether this phenomenon is the result of an overheated seed-round market, signs of a healthy financial ecosystem or perhaps both.

No matter the cause, one fix locally might just be having more venture capital firms raise bigger funds and invest at higher levels.

"I would love to see more venture capital firms in L.A., which surprises people because it seems like competition," said Rustic Canyon's **David Travers**. "But GRP and Greycroft are not our competition. Our competition is people thinking 'Just go to (Silicon Valley) to get funding.'"

– Tom Dotan

DANA SETTLE

COMPANY: Greycroft Partners
POSITION: Founding Partner
YEARS AT COMPANY: Seven
SIZE OF CURRENT FUND $175 million
INVESTED IN: AwesomenessTV; Adly; Epoxy.
DEALS PER YEAR: 25

▶ What is your standard investment size?
$500,000 to $5 million.

▶ What rounds will you lead?
We will do what makes sense for the entrepreneur. We don't have to lead, but are happy to lead if it makes sense. And we won't fund a company without fellow investors.

▶ How do you determine a company's value?
We have a broad and deep net of people that we tap into. We're surrounded by companies and place them into our ecosystem and get feedback on how acute the problem that they're solving is.

▶ What are the most important criteria you look for in a company?
The No. 1 pattern is successful repeat entrepreneur teams doing it again in the same space with the next iteration. We look at teams working together again even if it's in a slightly different area.

▶ What is your time line for expecting a return?
Our fund life is 10 years and we hope to see (an exit) in three to five years. But we can be patient.

Stage 5, Private Equity: Investors Wait, Looking for Positive Cash Flow

LOS ANGELES is home to dozens of deep-pocketed private-equity firms that invest tens or even hundreds of millions of dollars at a time. Just don't look for many of them in Silicon Beach.

Private-equity firms take risks and bet on up-and-comers, sure, but unlike venture capital firms, they tend to avoid investing in businesses that aren't profitable or that have relatively short histories.

Ryan Wald, a managing director at Westwood's **Gores Group LLC**, one of the region's biggest private-equity groups and a longtime investor in tech companies, said Gores isn't invested in Silicon Beach companies because they're too small, too young and too risky. The firm typically invests in more mature companies that have had at least a few years of positive cash flow.

"Venture capital guys are going to have a lot more misses than we are," Wald said. "We have more of an eye toward downside protection."

What's more, Gores and other large private-equity firms that perform leveraged buyouts – deals secured by the assets being purchased – aren't interested in buying young companies that lack the equity to secure a loan. There's more interest in tech companies from firms willing to take minority positions in a company and to invest with little or no leverage, but there's still not much, especially locally.

Kayne Partners, part of Century City private-equity firm **Kayne Anderson Capital Advisors LP**, invests in tech firms, but few local ones.

"Historically, Los Angeles has not been a particularly fertile location for Kayne Partners when it comes to technology investments," said **Doyl Burkett**, a partner at the firm.

Like Gores, Kayne typically invests in companies that are cash-flow positive and that have $10 million or more in annual revenue. But both firms expect there will be many more local companies meeting those criteria over the next few years. And that will likely mean more private-equity dollars flowing toward Silicon Beach.

"Today, it's not a place for us to play, but I do think, ultimately, it will be," Wald said. "If these businesses have good cash-flow profiles and there's a decent level of predictability, I expect we will start to look at them."

– James Rufus Koren

DOYL BURKETT

COMPANY: Kayne Anderson Capital Advisors LP
POSITION: Partner
YEARS AT COMPANY: Four
YEARS IN PRIVATE EQUITY: 15
SIZE OF CURRENT FUND: $100 million, two-year fund.

▶ What types of companies do you invest in?
We invest in businesses that are solving large, well-established problems by utilizing current or next-generation technologies. Most of our companies are not capital intensive and have a meaningful portion of revenue that is recurring in nature.

▶ What is your average investment size?
Most of our investments are $10 million to $15 million. We often like to take a staged approach with our investments. We may start with a $7 million investment and then invest additional growth capital over time.

▶ What size of company do you typically invest in?
Revenues when we first invest are normally between $10 million and $50 million.

▶ How big a stake do you typically take in a company?
We focus on minority deals and usually take a 10 percent to 40 percent stake in our portfolio companies.

▶ How do you evaluate a company? Please walk us through that process.
Generally speaking, we start with the standard analyses: comparable public companies, comparable transactions and discounted cash flow. Then we expand our process to consider recurring revenue models, long-term contracts, and strong track records of growth and profitability.

▶ What is your time line for expecting a return?
Three to seven years.

We invest in businesses that are solving large, well-established problems by utilizing current or next-generation technologies.'

DOYL BURKETT